

THE PUBLIC BUILDING AUTHORITY
OF COFFEE COUNTY, TENNESSEE

(A COMPONENT UNIT OF
COFFEE COUNTY, TENNESSEE)

AUDIT REPORT

June 30, 2012



BEAN, RHOTON & KELLEY, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

300 SOUTH JEFFERSON STREET

WINCHESTER, TN 37398

Tel 931.967.0611

Fax 931.967.4784

www.brkcpa.com

**THE PUBLIC BUILDING AUTHORITY
OF COFFEE COUNTY, TENNESSEE
TABLE OF CONTENTS
June 30, 2012**

Introductory Section – Unaudited

Roster of Board Members and Management Officials	a
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Financial Section

Independent Auditors' Report	1-2
Statement of Net Assets	3
Statement of Activities	4
Balance Sheet - Governmental Funds	5
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	6
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Statement of Net Assets - Proprietary Fund	9
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund	10
Statement of Cash Flows - Proprietary Fund	11-12
Budgetary Comparison Schedule – General Fund	13-14
Notes to Financial Statements	15-22

Other Supplementary Information

Schedule of Cash and Cash Equivalents	24
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Internal Control and Compliance Section

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	26-27
Schedule of Findings and Responses	28-29

INTRODUCTORY SECTION - UNAUDITED

THE PUBLIC BUILDING AUTHORITY
OF COFFEE COUNTY, TENNESSEE
INTRODUCTORY SECTION - UNAUDITED
June 30, 2012

ROSTER OF BOARD MEMBERS AND MANAGEMENT OFFICIALS

Board Members

Patricia Pineger, Chairman of the Board
Manchester, TN

Joseph Hills, Sr., Vice Chairman
Manchester, TN

Jim Major, 1st Secretary
Tullahoma, TN

Richard Dix, Treasurer
Manchester, TN

John McCain, 2nd Secretary
Manchester, TN

Freda Jones
Christiana, TN

Deborah Brown
Tullahoma, TN

Management Officials

Michael Osborne, General Manager
Manchester, TN

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Fax: 931-967-4784

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Members of American Institute of
Certified Public Accountants,
Tennessee Society of CPA's,
Association of Government Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
The Public Building Authority of Coffee County, Tennessee
Manchester, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of The Public Building Authority of Coffee County, Tennessee, a component unit of Coffee County, Tennessee, as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

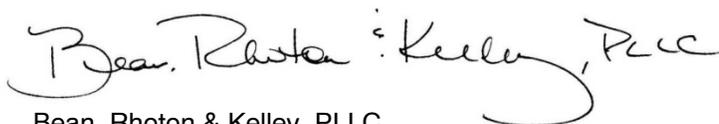
In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of The Public Building Authority of Coffee County, Tennessee, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2013, on our consideration of The Public Building Authority of Coffee County, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of the laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in assessing the results of our audit.

Management has not presented management's discussion and analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The Public Building Authority of Coffee County, Tennessee's financial statements as a whole. The introductory section and the Schedule of Cash and Cash Equivalents are presented for purposes of additional analysis and are not

a required part of the financial statements. The Schedule of Cash and Cash Equivalents is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Bean, Rhoton & Kelley, PLLC". The signature is written in a cursive, flowing style.

Bean, Rhoton & Kelley, PLLC
February 8, 2013

**THE PUBLIC BUILDING AUTHORITY
OF COFFEE COUNTY, TENNESSEE
STATEMENT OF NET ASSETS
June 30, 2012**

	Primary Government		
	Governmental	Business Type	
	Activities	Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,164.97	\$ 188,450.26	\$ 189,615.23
Restricted cash	0.00	16,619.58	16,619.58
Receivables-net of allowances	5,390,000.00	54,620.76	5,444,620.76
Accrued interest receivable	71,866.67	0.00	71,866.67
Inventory	0.00	33,143.81	33,143.81
Capital assets:			
Land	25,000.00	0.00	25,000.00
Buildings and improvements, net of depreciation	0.00	1,808,667.54	1,808,667.54
Furniture, machinery, and equipment net of depreciation	21,680.35	19,826.12	41,506.47
Deferred bond costs	205,225.53	0.00	205,225.53
TOTAL ASSETS	<u>\$ 5,714,937.52</u>	<u>\$ 2,121,328.07</u>	<u>\$ 7,836,265.59</u>
LIABILITIES			
Accounts payable	\$ 738.00	\$ 41,548.87	\$ 42,286.87
Accrued liabilities	0.00	27,766.33	27,766.33
Accrued interest payable	71,866.67	0.00	71,866.67
Bond premiums	205,225.53	0.00	205,225.53
Noncurrent liabilities:			
Due within one year	455,000.00	0.00	455,000.00
Due in more than one year	4,935,000.00	0.00	4,935,000.00
TOTAL LIABILITIES	<u>\$ 5,667,830.20</u>	<u>\$ 69,315.20</u>	<u>\$ 5,737,145.40</u>
NET ASSETS			
Invested in capital assets	\$ 46,680.35	\$ 1,828,493.66	\$ 1,875,174.01
Restricted: (non-expendable)	0.00	16,619.58	16,619.58
Unrestricted	426.97	206,899.63	207,326.60
TOTAL NET ASSETS	<u>\$ 47,107.32</u>	<u>\$ 2,052,012.87</u>	<u>\$ 2,099,120.19</u>

The accompanying notes are an integral part of this statement.

**THE PUBLIC BUILDING AUTHORITY
OF COFFEE COUNTY, TENNESSEE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012**

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines and Charges for Services	Primary Government		
			Governmental Activities	Business-type Activities	Total
FUNCTIONS/PROGRAMS					
Primary government					
Governmental activities:					
General	\$ 10,251.47	\$ 0.00	\$ (10,251.47)	\$ 0.00	\$ (10,251.47)
Bond	227,879.36	0.00	(227,879.36)	0.00	(227,879.36)
Total governmental activities	<u>238,130.83</u>	<u>0.00</u>	<u>(238,130.83)</u>	<u>0.00</u>	<u>(238,130.83)</u>
Business-type activities:					
Conference center	737,137.81	521,797.09	0.00	(215,340.72)	(215,340.72)
Total business-type activities	<u>737,137.81</u>	<u>521,797.09</u>	<u>0.00</u>	<u>(215,340.72)</u>	<u>(215,340.72)</u>
Total primary government	<u>\$ 975,268.64</u>	<u>\$ 521,797.09</u>	<u>(238,130.83)</u>	<u>(215,340.72)</u>	<u>(453,471.55)</u>
General revenues					
Appropriations from Coffee County			8,900.00	86,848.06	95,748.06
Appropriations from Manchester			0.00	86,848.06	86,848.06
Other revenues - See Note 8			0.00	1,893.22	1,893.22
Interest			227,890.66	1,103.55	228,994.21
Total general revenues			<u>236,790.66</u>	<u>176,692.89</u>	<u>413,483.55</u>
Change in net assets			(1,340.17)	(38,647.83)	(39,988.00)
Net assets-beginning			49,747.49	2,094,660.70	2,144,408.19
Restatement (See Note 12)			<u>(1,300.00)</u>	<u>(4,000.00)</u>	<u>(5,300.00)</u>
Net assets-beginning, as restated			<u>48,447.49</u>	<u>2,090,660.70</u>	<u>2,139,108.19</u>
Net assets-ending			<u>\$ 47,107.32</u>	<u>\$ 2,052,012.87</u>	<u>\$ 2,099,120.19</u>

The accompanying notes are an integral part of this statement.

**THE PUBLIC BUILDING AUTHORITY
 OF COFFEE COUNTY, TENNESSEE
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 June 30, 2012**

	Governmental Fund Types		Total Governmental Funds
	General	Bond Fund	
ASSETS			
Cash and cash equivalents	\$ 1,164.97	\$ 0.00	\$ 1,164.97
Total Assets	\$ 1,164.97	\$ 0.00	\$ 1,164.97
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 738.00	\$ 0.00	\$ 738.00
Total Liabilities	738.00	0.00	738.00
Fund balance:			
Unassigned	426.97	0.00	426.97
Total fund balances	426.97	0.00	426.97
Total liabilities and fund balances	\$ 1,164.97	\$ 0.00	\$ 1,164.97

The accompanying notes are an integral part of this statement.

**THE PUBLIC BUILDING AUTHORITY
 OF COFFEE COUNTY, TENNESSEE
 RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 June 30, 2012**

Fund balances - total governmental funds \$ 426.97

Amounts reported for governmental activities in the Statement of Net Assets are different from amounts reported for governmental funds in the Balance Sheet because:

Capital assets used in governmental activities are not financial resources and therefore not reported in governmental funds.

Capital assets	52,042.00
Less accumulated depreciation	(5,361.65)

Loans receivable are not due and receivable in the current period and therefore are not reported in the governmental funds.

Notes receivable	5,390,000.00
Interest receivable	71,866.67

Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.

Bonds, notes, and capital lease obligations	(5,390,000.00)
Accrued interest payable	<u>(71,866.67)</u>

Net assets - total governmental activities \$ 47,107.32

**THE PUBLIC BUILDING AUTHORITY
OF COFFEE COUNTY, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012**

	Governmental Fund Types		Total Governmental Funds
	General Fund	Bond Fund	
REVENUES:			
Interest income	\$ 11.30	\$ 227,879.36	\$ 227,890.66
Other income	8,900.00	0.00	8,900.00
Total Revenues	<u>8,911.30</u>	<u>227,879.36</u>	<u>236,790.66</u>
EXPENDITURES			
General and administrative	8,493.60	0.00	8,493.60
Debt service:			
Principal	0.00	425,000.00	425,000.00
Interest and other charges	0.00	227,879.36	227,879.36
Total Expenditures	<u>8,493.60</u>	<u>652,879.36</u>	<u>661,372.96</u>
Excess / (Deficiency) of revenues over expenditures	<u>417.70</u>	<u>(425,000.00)</u>	<u>(424,582.30)</u>
OTHER FINANCING SOURCES:			
Principal payments from Coffee County, Tennessee	0.00	335,000.00	335,000.00
Principal payments from the City of Manchester, Tennessee	0.00	90,000.00	90,000.00
Total Other Financing Sources	<u>0.00</u>	<u>425,000.00</u>	<u>425,000.00</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	417.70	0.00	417.70
Fund balance, beginning of year	1309.27	0.00	1309.27
Restatement (Note 12)	(1300.00)	0.00	(1300.00)
Fund balance, beginning of year, as restated	9.27	0.00	9.27
Fund balance, end of year	<u>\$ 426.97</u>	<u>\$ 0.00</u>	<u>\$ 426.97</u>

The accompanying notes are an integral part of this statement.

**THE PUBLIC BUILDING AUTHORITY
OF COFFEE COUNTY, TENNESSEE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012**

Net change in fund balances - governmental funds \$ 417.70

Amounts reported for governmental activities in the Statement of Activities are different from amounts reported for governmental funds in the Statement of Revenues, Expenditures and Changes in Fund Balances, because:

Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The amount by which capital outlays reported in the Governmental Funds (\$0.00) is less than depreciation (\$1,757.87) for the year. (1,757.87)

Repayment of principal on bonds and notes payable is an expenditure in the governmental funds, but reduces long-term liabilities for governmental activities. Also governmental funds include interest paid in debt service expenditures, whereas interest is accrued and expensed as it becomes payable for governmental activities.

Principal repayments	425,000.00
Interest payments	227,879.36

Receipt of principal on notes receivable is a revenue in the governmental funds, but decreases loans receivable for governmental activities. Also governmental funds include interest received in revenue, whereas interest receivable is accrued as it becomes receivable for governmental activities.

Principal received	(425,000.00)
Interest received	<u>(227,879.36)</u>

Change in net assets - governmental activities \$ (1,340.17)

**THE PUBLIC BUILDING AUTHORITY
OF COFFEE COUNTY, TENNESSEE
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2012**

	Manchester Coffee County Conference Center	Totals
	<u>Center</u>	<u>Totals</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 188,450.26	\$ 188,450.26
Certificates of deposits - restricted	16,619.58	16,619.58
Accounts receivable	54,620.76	54,620.76
Inventory	<u>33,143.81</u>	<u>33,143.81</u>
Total current assets	292,834.41	292,834.41
PROPERTY, PLANT, AND EQUIPMENT		
Property, plant, and equipment, net of accumulated depreciation	<u>1,828,493.66</u>	<u>1,828,493.66</u>
Total property, plant, and equipment	<u>1,828,493.66</u>	<u>1,828,493.66</u>
TOTAL ASSETS	<u><u>\$ 2,121,328.07</u></u>	<u><u>\$ 2,121,328.07</u></u>
CURRENT LIABILITIES		
Accounts payable	\$ 41,548.87	\$ 41,548.87
Accrued liabilities	<u>27,766.33</u>	<u>27,766.33</u>
Total current liabilities	<u>69,315.20</u>	<u>69,315.20</u>
TOTAL LIABILITIES	<u><u>\$ 69,315.20</u></u>	<u><u>\$ 69,315.20</u></u>
NET ASSETS		
Invested in capital assets	\$ 1,828,493.66	\$ 1,828,493.66
Restricted (non-expendable)	16,619.58	16,619.58
Unrestricted	<u>206,899.63</u>	<u>206,899.63</u>
TOTAL NET ASSETS	<u><u>\$ 2,052,012.87</u></u>	<u><u>\$ 2,052,012.87</u></u>

The accompanying notes are an integral part of this statement.

**THE PUBLIC BUILDING AUTHORITY
OF COFFEE COUNTY, TENNESSEE
STATEMENT OF CASH FLOWS (continued)
PROPRIETARY FUND
For the Year Ended June 30, 2012**

Reconciliation of operating income to net cash used by operations

Operating (loss)	\$	(213,447.50)	\$	(213,447.50)
Adjustments to reconcile net loss to net cash used by operating activities:				
Depreciation and amortization		65,873.81		65,873.81
Increase in accounts receivable		(4,249.04)		(4,249.04)
Increase in inventories		(8,696.23)		(8,696.23)
Decrease in accounts payable		(12,585.41)		(12,585.41)
Decrease in accrued expenses		<u>(2,753.63)</u>		<u>(2,753.63)</u>
 Total Adjustments		<u>37,589.50</u>		<u>37,589.50</u>
 Net cash (used) by operating activities	\$	<u><u>(175,858.00)</u></u>	\$	<u><u>(175,858.00)</u></u>

The accompanying notes are an integral part of this statement.

THE PUBLIC BUILDING AUTHORITY
OF COFFEE COUNTY, TENNESSEE
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended June 30, 2012

	Budgetary Amounts		Actual Amounts (See Note A)	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance beginning of year	\$ 1,309.27	\$ 1,309.27	\$ 1,309.27	\$ 0.00
Resources (inflows):				
Bond revenues	215.00	215.00	0.00	(215.00)
Other income	0.00	0.00	8,900.00	8,900.00
Interest income	10.00	10.00	11.30	1.30
Amounts available for appropriation	<u>225.00</u>	<u>225.00</u>	<u>8,911.30</u>	<u>8,686.30</u>
Charges to appropriations (outflows):				
Annual audit	2,000.00	2,000.00	1,500.00	500.00
Legal services	3,500.00	3,500.00	3,500.00	0.00
Other expenses	3,625.00	3,625.00	3,493.60	131.40
Total charges to appropriations	<u>9,125.00</u>	<u>9,125.00</u>	<u>8,493.60</u>	<u>631.40</u>
Restatement (Note 12)	<u>0.00</u>	<u>0.00</u>	<u>(1,300.00)</u>	<u>1,300.00</u>
Budgetary fund balance, end of year	<u>\$ (7,590.73)</u>	<u>\$ (7,590.73)</u>	<u>\$ 426.97</u>	<u>\$ 8,017.70</u>

(continued)

**THE PUBLIC BUILDING AUTHORITY
OF COFFEE COUNTY, TENNESSEE
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (continued)
For the Year Ended June 30, 2012**

General
Fund

Note A: Explanation of Differences Between Budgetary
Inflows and Outflows and GAAP Revenues and Expenditures

Sources/Inflow of Resources:

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 8,911.30
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Differences - Budget to GAAP

There are no differences from Budget to GAAP	<u>0.00</u>
--	-------------

Total revenues as reported on the statement of revenues, expenditure, and changes in fund balances - governmental funds	<u><u>8,911.30</u></u>
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Uses/Outflows of Resources

Actual amounts (budgetary basis) "total charges to appropriations": from the budgetary comparison schedule	8,493.60
--	----------

Differences - Budget to GAAP

There are no differences from Budget to GAAP	<u>0.00</u>
--	-------------

Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$ <u><u>8,493.60</u></u>
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**THE PUBLIC BUILDING AUTHORITY
OF COFFEE COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Public Building Authority of Coffee County, Tennessee (the Authority) was incorporated September 5, 2000. The purpose of the Authority is to provide the capital resources (through the sale of bonds, notes, and other obligations) necessary to acquire, construct, reconstruct, rehabilitate, or improve facilities necessary or convenient to the operation of the related entities. In accordance with Section 12-10-108, *Tennessee Code Annotated*, the Authority has seven Board of Directors that are elected by the governing body; the County Commission of Coffee County, Tennessee, and they hold office for staggered six year terms. As defined in Governmental Accounting Standards Board (GASB) 14, the Authority is a legal entity that meets the definition of a component unit of Coffee County in that a financial benefit/burden relationship exists between the County and the Authority.

The accompanying financial statements are presented in conformity with accounting principles generally accepted in the United States of America for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources.

Reporting entity

The Authority follows the standards promulgated by GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, to define the reporting entity. The financial statements include all operations over which the Authority is financially accountable. The Authority is not a participant in any joint venture and has not identified any entities which would be component units of the Authority.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the Authority's activities. The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as *general revenues*. The effect of interfund activity has been removed from the government-wide financial statements.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements are met. Expenses are recorded when liabilities are incurred.

**THE PUBLIC BUILDING AUTHORITY
OF COFFEE COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting (continued)

Governmental Fund Financial Statements

Governmental fund financial statements (i.e., balance sheet and statement of revenues, expenditures, and changes in fund balances) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenues susceptible to accrual are interest on investments, and intergovernmental revenues. Interest on invested funds is recognized when earned. Intergovernmental revenues that are reimbursements for specific expenditures are recognized when all eligibility requirements are met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Authority has presented the following major governmental funds:

General Fund – This fund is the main operating fund of the Authority. This fund is used to account for all financial resources not accounted for in other funds. All general revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges, and capital improvement costs that are not paid through other funds are paid from the General Fund.

Bond Fund – This fund is a special revenue fund used to account for the loans made by the Authority to the City and County for capital projects such as the joint industrial park, vocational rehab center, and water lines for the county. The collection of principal and interest on these loans is recorded in the bond fund.

Proprietary Fund Financial Statements

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's ongoing operations. The principal operating revenues of the Conference center are charges for catering, space rental, and related services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Authority applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure. In addition, the Authority applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements to its business-type activities.

The Authority has presented the following major proprietary fund:

Manchester Conference Center – This fund is used to account for the services provided at the Conference Center.

**THE PUBLIC BUILDING AUTHORITY
OF COFFEE COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting (continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Equipment

Plant and equipment is stated at cost, and depreciation is computed using the straight-line method based upon the estimated useful lives of the assets. The estimated useful lives vary from five to forty years. Major expenditures for plant and equipment are capitalized while maintenance and repairs are expensed when incurred.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Statements of Cash Flows

For purposes of the statement of cash flows, the Authority considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

Interfund Receivables and Payables and Transactions Between Funds

Short-term amounts owed between funds are classified as "Due to/from other funds." Legally authorized transfers are treated as operating transfers and are included in the results of operations of both Governmental and Proprietary Funds.

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Authority is bound to honor constraints on specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Authority has classified certain prepaid expenses and inventories as being Nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year. The Authority did not have any nonspendable resources as of June 30, 2012.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Authority did not have any restricted resources as of June 30, 2012.

**THE PUBLIC BUILDING AUTHORITY
OF COFFEE COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Balance Classification (continued)

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) that as employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Authority did not have any committed resources as of June 30, 2012.

Assigned: This classification includes amounts that are constrained by the Authority's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board or through the Board delegating this responsibility to the manager through the budgetary process. The Authority did not have any committed resources as of June 30, 2012.

Unassigned: This classification includes the residual fund balance for the General Fund.

The Authority would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to deter the use of these other classified funds.

Conference Center

During the year ended June 30, 2002, the Authority completed construction of the Manchester-Coffee County Conference Center, located adjacent to the Holiday Inn in Manchester. The PBA is responsible for operating the conference center. Operations of the Conference Center are reported as an enterprise fund of the PBA. In an agreement with the Authority, the City of Manchester and Coffee County are jointly responsible for underwriting the debt and operations of the Center. Furthermore, any net profits and losses attributable to the operation of the conference center are born equally by the City of Manchester and Coffee County.

NOTE 2 – CASH

The Authority is authorized to invest funds in financial institutions and direct obligations of the Federal Government. During 2012, the Authority invested funds that are not immediately needed in certificates of deposit, savings accounts, and money market accounts. The Authority's deposits at year-end were entirely covered by federal depository insurance or by collateral held by the Authority's bank in the Authority's name. The carrying amount of total cash deposits (including petty cash) at June 30, 2012, is \$206,234.81.

**THE PUBLIC BUILDING AUTHORITY
OF COFFEE COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 3 – RECEIVABLES

A summary of governmental receivables for the year ended June 30, 2012, follows:

Coffee County	\$ 4,050,000.00
City of Manchester	<u>1,340,000.00</u>
	<u>\$ 5,390,000.00</u>

Of the total, the Public Building Authority expects to receive \$90,000.00 from the City of Manchester and \$365,000.00 from Coffee County for bond payment within the next twelve months.

The business type activities consist of the following receivable for the year ended June 30, 2012:

Trade receivables	\$ 32,078.42
Coffee County	15,249.31
City of Manchester	<u>7,293.03</u>
	<u>\$ 54,620.76</u>

NOTE 4 – CAPITAL ASSETS

Governmental Activities

A summary of changes in property, plant and equipment for the year ended June 30, 2012, follows:

Coffee County Public Authority:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance</u> <u>June 30, 2012</u>
Land	\$ 25,000.00	\$ 0.00	\$ 0.00	\$ 25,000.00
Equipment	27,042.00	0.00	0.00	27,042.00
Less accumulated depreciation - equipment	<u>(3,603.78)</u>	<u>(1,757.87)</u>	<u>0.00</u>	<u>(5,361.65)</u>
Net	<u>\$ 48,438.22</u>	<u>\$ (1,757.87)</u>	<u>\$ 0.00</u>	<u>\$ 46,680.35</u>

Depreciation expense amounted to \$1,757.87 for the year ended June 30, 2012.

**THE PUBLIC BUILDING AUTHORITY
OF COFFEE COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 4 – CAPITAL ASSETS (continued)

Business Type Activities

A summary of changes in property, plant and equipment for the year ended June 30, 2012 follows:

Coffee County/Manchester Conference Center:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance June 30, 2012</u>
Buildings	\$ 2,403,605.69	\$ 0.00	\$ 0.00	\$ 2,403,605.69
Equipment	<u>323,644.47</u>	<u>0.00</u>	<u>0.00</u>	<u>323,644.47</u>
	<u>\$ 2,727,250.16</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 2,727,250.16</u>
Less accumulated depreciation – buildings	\$ (533,969.99)	\$ (60,968.16)	\$ 0.00	\$ (594,938.15)
Less accumulated depreciation – equipment	<u>(298,912.70)</u>	<u>(4,905.65)</u>	<u>0.00</u>	<u>(303,818.35)</u>
	<u>(832,882.69)</u>	<u>(65,873.81)</u>	<u>0.00</u>	<u>(898,756.50)</u>
Net	<u>\$ 1,894,367.47</u>	<u>\$ (65,873.81)</u>	<u>\$ 0.00</u>	<u>\$ 1,828,493.66</u>

Depreciation expense amounted to \$68,873.81 for the year ended June 30, 2012.

NOTE 5 – BONDS PAYABLE

The following is a summary of the Authority's bonded debt transactions for the year ended June 30, 2012:

Coffee County Public Authority:

	<u>Outstanding July 1, 2011</u>	<u>Additions</u>	<u>Refunding/ Retirements</u>	<u>Outstanding June 30, 2012</u>
Bonds, Series 2001A 3.25% - 5.00%	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Bonds, Series Z-4A 4.5% - 5.00%	<u>5,815,000.00</u>	<u>0.00</u>	<u>425,000.00</u>	<u>5,390,000.00</u>
	<u>\$ 5,815,000.00</u>	<u>\$ 0.00</u>	<u>\$ 425,000.00</u>	<u>\$ 5,390,000.00</u>

**THE PUBLIC BUILDING AUTHORITY
OF COFFEE COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 5 – BONDS PAYABLE (continued)

Annual debt service requirements for bonds, Series Z-4A outstanding to maturity are as follows:

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 455,000.00	\$ 215,600.00
2014	490,000.00	197,400.00
2015	520,000.00	177,800.00
2016	555,000.00	157,000.00
2017	590,000.00	134,800.00
2018 – 2021	<u>2,780,000.00</u>	<u>286,600.00</u>
	<u>\$ 5,390,000.00</u>	<u>\$ 1,169,200.00</u>

The City of Manchester and Coffee County are jointly responsible for the bonds payable.

NOTE 6 – CONDUIT DEBT

The Authority is an unauthorized conduit debt issuer under the Tennessee Local Government Alternative Loan Program (TN-LOANS Program). The Authority has issued bonds as conduit debt on behalf of the Cities of Manchester, TN, Winchester, TN, Fayetteville, TN, White House, TN, Lawrenceburg, TN, Harrison County, TN, and Coffee County, Tennessee. The borrowers have guaranteed, insured, and pledged certain revenues for repayments of these bond issues. The bonds do not constitute a debt or pledge of faith and credit of the Authority and, accordingly, have not been reported in the accompanying financial statements. The total conduit debt outstanding as of June 31, 2012, for all conduit bond issues is \$39,075,000.00.

NOTE 7 – INVENTORY

Inventory is stated at cost and includes food and supplies used by the Conference Center.

NOTE 8 – BUDGETARY DATA

Formal budgetary accounting is employed as a management control for all funds of the Authority. Annual operating budgets are adopted each fiscal year through passage of an annual budget ordinance and amended as required, and the same basis of accounting is used to reflect actual revenues and expenditures/expenses recognized on a generally accepted accounting principles basis. Budgetary control is exercised at the departmental level.

**THE PUBLIC BUILDING AUTHORITY
OF COFFEE COUNTY, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 9 – RISK FINANCING ACTIVITIES

It is the policy of the Authority to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability, property and casualty, worker’s compensation, and environmental. Settled claims have not exceeded commercial coverage in the past three fiscal years, and there are currently no pending lawsuits.

NOTE 10 – RETIREMENT PLAN

The employees of the Authority are covered under the plan covering employees of Coffee County. The Coffee County Government unit pays for this plan.

NOTE 11 – ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Authority has adopted the direct write-off method to account for bad debt expense. Receivables are reviewed annually and uncollectable accounts are currently expensed. There was no bad debt expense in 2012.

NOTE 12 – RESTATEMENT

During 2012, certain matters were noted which required restatement of the prior year. Material payables were discovered during the audit, which required a restatement to correctly report certain expense accounts.

The following summarizes the aforementioned adjustments to net assets at July 1, 2011:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Net assets, beginning of year, as previously reported	\$ 49,747.49	\$ 2,094,660.70
Restatement, as discussed above	<u>(1,300.00)</u>	<u>(4,000.00)</u>
Net assets, beginning of year as restated	<u>\$ 48,447.49</u>	<u>\$ 2,090,660.70</u>

OTHER SUPPLEMENTARY INFORMATION

THE PUBLIC BUILDING AUTHORITY
 OF COFFEE COUNTY, TENNESSEE
 OTHER SUPPLEMENTARY INFORMATION
 June 30, 2012

SCHEDULE OF CASH AND CASH EQUIVALENTS

	<u>Carrying Value</u>
General Fund:	
American City Bank-Checking Account	\$ 914.97
Petty Cash	250.00
Total General Fund	<u>1,164.97</u>
 Enterprise Fund:	
American City Bank-Checking Account	\$ 2,551.66
American City Bank-Checking Account	185,648.60
American City Bank-CD	16,619.58
Petty Cash	250.00
Cash on Hand	0.00
Total Enterprise Fund	<u>205,069.84</u>
 Total Cash - All Funds	<u><u>\$ 206,234.81</u></u>

INTERNAL CONTROL AND COMPLIANCE SECTION

BEAN, RHOTON & KELLEY, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

300 SOUTH JEFFERSON STREET, WINCHESTER, TN 37398

Office: 931-967-0611

Fax: 931-967-4784

www.brkcpa.com

Members of American Institute of
Certified Public Accountants,
Tennessee Society of CPA's,
Association of Government Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Coffee County Public Building Authority
Manchester, Tennessee

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of The Public Building Authority of Coffee County, Tennessee, a component unit of Coffee County, Tennessee, as of and for the year ended June 30, 2012, which collectively comprise The Public Building Authority of Coffee County, Tennessee's basic financial statements and have issued our report thereon dated February 8, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of The Public Building Authority of Coffee County, Tennessee, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered The Public Building Authority of Coffee County, Tennessee's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting [10-01]. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Public Building Authority of Coffee County, Tennessee's financial statements are free of material misstatement, we performed tests of its compliance with certain

provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance and other matters that are required to be reported under *Governmental Auditing Standards* and which are described in the accompanying schedule of findings and responses [10-02 and 11-01].

The Public Building Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit The Public Building Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, City Council, County Commissioners and the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Bean, Rhoton & Kelley, PLLC". The signature is written in dark ink and is positioned above the printed name of the firm.

Bean, Rhoton & Kelley, PLLC
February 8, 2013

**THE PUBLIC BUILDING AUTHORITY
OF COFFEE COUNTY, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2012**

I. Summary of Auditors' Results

- A. The June 30, 2012, Auditor's Report on the Financial Statements was unqualified.
- B. Significant deficiencies in internal control were disclosed by the audit and are discussed below in finding 10-01.
- C. There were no material weaknesses.
- D. Instances of noncompliance were disclosed by the audit and are discussed below in findings 10-02 and 11-01.

II. Findings Related to the Financial Statements, which are required to be reported in accordance with *Government Auditing Standards*.

(10-01) Segregation of Duties

In our review of the overall accounting controls of the Center's accounting system, we found several areas where proper segregation of duties might be obtained. The Center's inability to properly segregate the control of funds from record-keeping duties is a significant weakness in controls. It is understood that due to the lack of available personnel, this situation does and will continue to exist. The Board should realize the additional responsibilities imposed.

Recommendation:

Because of the number of office staff working for the Center, we do not believe a complete segregation of duties is possible that would eliminate all weaknesses in the Center's accounting system. However, a thorough study of the internal control aspect of the accounting system should be considered by the Center. Certain additional procedures and segregation of proper duties could increase the control over the assets.

Board's Comment:

Because of the size and nature of the Center's operation, there is no practical way to remedy this situation. We will work on these issues to mitigate the risks.

Disposition:

As of June 30, 2012, this problem still exists.

(10-02) Three Day Banking Law

Deposits are not always made within three days of receipt.

Recommendation:

All collections of cash must be deposited to an official bank within three days of collection. One purpose of this rule is to minimize losses from theft, resulting from break-ins or misplaced cash.

Board's Comment:

This problem will be taken care of immediately.

Disposition:

As of June 30, 2012, this problem still exists.

**THE PUBLIC BUILDING AUTHORITY
OF COFFEE COUNTY, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES (continued)
June 30, 2012**

(11-01) Authorized Signatures

During our testing, we identified a bank account that only requires one signature to withdraw funds.

Recommendation:

All deposits and investments should require dual signatures to withdraw funds.

Board's Comment:

We will correct this problem.

Disposition:

As of June 30, 2012, this problem still exists.